

As well as making financial donations, employees are encouraged to spend time working in the community. Since June 2005 employees in the UK have been able to take up to 15 hours paid leave per year to provide volunteer services to the community. A number of employees regularly volunteer their own time to work in the local community, helping primary and secondary school children with reading and other core skills and providing business experience to support public sector organisations.

#### Local community involvement

In October 2006, Schroders employees began participating in the Hackney Schools Mentoring Programme (HSMP), mentoring 14- and 15-year old students in the London Borough of Hackney. Already this scheme has the support of 50 employees, making Schroders its largest corporate supporter. HSMP was established in 1996 by the East London Business Alliance and Hackney Learning Partnerships with the aim of increasing students' self confidence, improving their academic performance, allowing them to gain experience of the working world and raising their aspirations.

#### Overseas volunteering

Following a volunteering trip to Sri Lanka in 2005, 20 employees travelled to South Africa in September 2006 to help build houses for children orphaned by AIDS, in conjunction with Habitat for Humanity, a global charity dedicated to eliminating sub-standard housing and homelessness. In support of this initiative Schroders contributed 50 per cent. of the cost of participating, with employees meeting the remainder as well as raising money for the charity. In 2006 over £30,000 was raised towards Habitat for Humanity's work in South Africa. Employees will be participating in a similar project in India in October 2007.

Investing time to help build homes with their colleagues enables employees to build strong team relationships and develop their communication skills, while making a positive and lasting contribution to the communities in which they are assisting.

#### Our employees

We want Schroders to be an employer of choice. For us, this means ensuring that our employees understand the strategic aims and objectives of the Group and are clear about their role in achieving them. It also means having policies and practices that make Schroders an attractive place to work and which encourage our employees to act ethically and to be aware of and participate in the wider community.

#### Communication

We communicate with all Schroders employees worldwide via email and the Group intranet as well as through a quarterly magazine and monthly newsletter. We also use employee meetings to facilitate the exchange of views with senior management and discussion of the progress being made by the Group.

An Employee Consultation Forum was established in the UK in 2005, consisting of employees elected by their peers. Members of the Forum meet regularly with management as part of a Joint Consultative Group which discusses employee-related matters and provides feedback and recommendations to the senior management team.

#### High ethical standards

We actively promote high ethical standards. Concerns about behaviour or decisions that are perceived to be unethical can be raised by employees through our internal 'whistleblowing' process.

Personal securities trading by employees is regulated and monitored to ensure this does not lead to conflicts of interest. Employees are not permitted to solicit or accept any inducements which are likely to conflict with their duties to clients. Training is provided in relation to these issues and in relation to money laundering, terrorist finance and data protection.

#### Developing our employees

The performance management process at Schroders comprises an annual performance appraisal against agreed objectives and our

core values: integrity; passion; innovation; teamwork and excellence. Output from this performance process is used to inform decisions on career development, progression and reward. Employees worldwide also have access to a wide range of training and development opportunities, strengthening our commitment to being an employer of choice.

#### Equal opportunities

We are committed to providing equal opportunities and seek to ensure that our workforce reflects, as far as is practicable, the diversity of the many communities in which we operate. For example, our global workforce currently comprises 45 per cent. female and 55 per cent. male employees. It is the Group's policy to give appropriate consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. For the purposes of training, career development and progression, disabled employees (including those who become disabled during the course of their employment) are treated on equal terms with other employees. We operate a zero tolerance policy to harassment and bullying.

#### Health and safety

We promote high standards of health and safety at work for all employees and have a globally implemented health and safety policy, which we expect all employees to follow and which highlights our commitment to ensuring employees are provided with a safe and healthy working environment. Training on these issues is also given to employees.

#### Responsibility

Board responsibility for corporate and social responsibility issues is divided between Jonathan Asquith, Chief Financial Officer and Alan Brown, Head of Investment. Jonathan Asquith has responsibility for all employee, environmental and community involvement issues and Alan Brown has responsibility for the investment process, socially responsible investment and corporate governance issues relating to the companies in which Schroders invests.



**20 Schroders volunteers helped build homes for AIDS orphans in South Africa.**



**Directors' responsibility statement**

The following statement, which should be read in conjunction with the report of the independent auditors, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and the auditors in relation to the financial statements.

The Directors are responsible for preparing the Annual Report and Accounts. The Directors have responsibility for ensuring that the Group keeps proper accounting records. They are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the Company and of the Group at the end of the financial year and of the results for the year. They are also responsible for taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors remain satisfied that the Group has adequate resources to continue in business and accordingly that the financial statements should be drawn up on a going concern basis. Further, appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates have been used in the preparation of these financial statements and applicable accounting standards have been followed. These policies and standards, for which the Directors accept responsibility, have been discussed with the auditors. The Directors, having prepared the financial statements, have requested the auditors to take whatever steps and to undertake

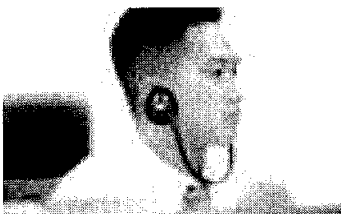
whatever inspections they consider appropriate for the purpose of giving their report.

Pages 2 to 25 and pages 34 to 41 inclusive contain the Directors' report and pages 26 to 33 inclusive contain the remuneration report, both of which have been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the Directors in connection with those reports shall be subject to the limitations and restrictions provided by such law.

The statement from the Chairman and the Chief Executive on pages 2 and 3 and the business review on pages 4 to 17, which form part of the Directors' report, contain certain forward-looking statements with respect to the financial condition, and results of, operations and businesses of the Group. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Forward-looking statements and forecasts are based on the Directors' current view and information known to them at the date of this report. The Directors do not make any undertaking to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Nothing in this document should be construed as a profit forecast.

**Schroders**  
**Directors' responsibility**  
**statement**

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**Independent auditors' report to the members of Schroders plc****Schroders  
Auditors' report****42/43**

We have audited the Group and parent company financial statements (the 'financial statements') of Schroders plc for the year ended 31 December 2006, which comprise the Group income statement, the Group and parent balance sheets, the Group and parent cash flow statements, the Group and parent statements of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the remuneration report that is described as having been audited.

**Respective responsibilities of Directors and auditors**

The Directors' responsibilities for preparing the Annual Report, the remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union are set out in the Directors' responsibility statement.

Our responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Annual Report that is cross referred from the Directors' report. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the statement from the Chairman and the Chief Executive, the business review, the unaudited part of the remuneration report and the other information listed in the contents. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the remuneration report to be audited.

**Opinion**

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006 and of its loss and cash flows for the year then ended;
- the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the Group financial statements.

**PricewaterhouseCoopers LLP**

Chartered Accountants and  
Registered Auditors  
London  
8 March 2007

**Consolidated income statement**

for the year ended 31 December 2006

	Notes	2006 £mn	2005 £mn
Revenue	3	967.2	808.0
Cost of sales	3	(169.0)	(131.0)
<b>Gross profit</b>		<b>798.2</b>	<b>677.0</b>
Gain on discontinued outsourcing contract		—	20.4
Administrative expenses	3	(542.3)	(484.3)
<b>Operating profit</b>		<b>255.9</b>	<b>213.1</b>
Share of profit of associates	12	15.6	13.7
Share of loss of joint ventures	13	(0.2)	(0.2)
Interest receivable and similar income	3	15.4	13.5
Interest payable and similar charges	3	20.1	25.3
		(1.4)	(1.2)
<b>Profit before tax</b>		<b>290.0</b>	<b>250.7</b>
UK tax		(23.5)	(16.2)
Foreign tax		(44.6)	(41.2)
Tax	6	(68.1)	(67.4)
<b>Profit after tax</b>		<b>221.9</b>	<b>193.3</b>
<b>Attributable to:</b>			
Minority interests	32	0.6	2.0
Equity holders of the parent		221.3	191.3
		<b>221.9</b>	<b>193.3</b>
Memo – dividends	7	(63.4)	(59.5)
<b>Basic earnings per share</b>	8	<b>76.9p</b>	<b>65.7p</b>
<b>Diluted earnings per share</b>	8	<b>75.7p</b>	<b>65.1p</b>